

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268

RETAIL GROUND AND PARCEL SELECT GROUND
SERVICE STANDARD CHANGES, 2022

Docket No. N2022-1

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS
1-10 OF PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**
(April 8, 2022)

The United States Postal Service hereby provides its responses to the above-listed questions of the Presiding Officer's Information Request No. 1, issued on April 1, 2022. Each question is stated verbatim and followed by the response. Please note that, although Questions 9 and 10 were filed under seal, it has been determined that neither the questions nor the responses contain commercially sensitive information, and for the convenience of all, Questions 9 and 10 are addressed entirely in this public response set. Data files provided in response to Question 9, however, do contain commercially sensitive information and, accordingly, these files are still filed under seal.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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April 8, 2022

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1. Please refer to USPS-T-1.¹ Please also refer to USPS-T-2.² The Postal Service states that the proposed service standards for RG and PSG are predicated on, and would align with, the planned service standards for First-Class Package Service (FCPS)³ within the contiguous United States. USPS-T-1 at 2, 4; USPS-T-2 at 10. The Postal Service further explains that it determined the proper transportation mode for “a given shipment” by first assessing whether surface transportation was logistically viable within the 5-day service standard window in the “current state of the FCPS surface transportation network” and if so, subsequently comparing the price of surface transportation to the price of air transportation. USPS-T-2 at 16-17. The Postal Service concludes that the consolidation of RG and PSG with FCPS would enable “further optimization” of the Postal Service’s surface transportation network by improving capacity utilization in surface lanes. *Id.* at 17-18. Please provide clarifications with respect to the transportation impact analysis that the Postal Service performed in the instant proceeding.*
 - a. Please confirm that the current FCPS surface transportation network to which the Postal Service added RG and PSG packages represents the final network of the Postal Service’s transportation model identified as FCM/FCPS Model in the Docket No. N2021-2 Advisory Opinion.⁴ If not confirmed, please provide a detailed description of the current FCPS surface transportation network to which the Postal Service added RG and PSG volumes and explain the transportation modeling technique (including the name(s) of any software packages utilized) that the Postal Service used to assess the impact of adding RG and PSG to FCPS flows.
 - b. If question 1.a. above is confirmed, please also confirm that the starting point for the Postal Service’s transportation impact analysis conducted in the instant proceeding included RG and PSG packages assuming transportation mode assignments for Origin-Destination processing facility pairs as they were determined in the FCM/FCPS Model.
 - i. If question 1.b. is not confirmed, please explain.

¹ Direct Testimony of Steven E. Jarboe on Behalf of the United States Postal Service (USPS-T-1), March 21, 2022.

² Direct Testimony of Kevin P. Bray on Behalf of the United States Postal Service (USPS-T-2), March 21, 2022.

³ See *generally* Docket No. N2021-2, Advisory Opinion on the Service Standard Changes Associated with First-Class Package Service, September 29, 2021 (Docket No. N2021-2 Advisory Opinion).

⁴ See Docket No. N2021-2 Advisory Opinion at 114-20 for the discussion of the “final network” of the Postal Service’s FCM/FCPS Model.

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- ii. If question 1.b. is confirmed, please also confirm that the shipments, for which cost-effectiveness was evaluated, included all volumes modeled in the FCM/FCPS Model and the newly added RG and PSG volumes. If not confirmed, please list the volumes included in the modeled network.
- c. If question 1.a. above is confirmed, please also confirm whether the transportation cost changes presented in USPS-T-3⁵ and in Library Reference USPS-LR-N2022-1/1⁶ represent changes in transportation costs that are additional to those projected from the FCM/FCPS Model, and stem solely from added RG and PSG volumes to the FCM/FCPS Model's final network. If not confirmed, please explain.

RESPONSE:

1.a. Confirmed. The FCPS surface transportation network to which the Postal Service proposes to add RG and PSG packages is the same as the final network of the Postal Service's transportation model as identified in Library Reference N2021-2/4. The service standard impact volume and pair analysis for RG and PSG were calculated referencing the proposed service standards for the FCPS network identified in N2021-2. This analysis did not require transportation modeling.

1.b. Not confirmed. The mode impact analysis conducted to estimate the potential RG and PSG volumes that would utilize air transportation and surface transportation did not reference the proposed mode from N2021-2. The transportation mode impact was first reviewed based on the proposed mode from N2021-2 and compared that to the current mode matrix from February 2022. The February mode matrix showed less air volume than the proposed matrix from N2021-2. During FY2021, many FCP

⁵ See Direct Testimony of A. Thomas Bozzo on Behalf of the United States Postal Service (USPS-T-3), March 21, 2022, at 5-6.

⁶ Library Reference USPS-LR-N2022-1/1, March 21, 2022, Excel file "RG.PSG.FCPS.Cost.Impact.public.xlsx," tab "Summary_MP_Trans," cell C6.

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origin/destination lanes were shifted to surface transportation based on having the additional transit day added temporarily to FCPS service standards since the pandemic took hold in April 2020. Our assumption was that adding RG and PSG volume to origin / destination lanes would build density and potentially justify shifting additional volume from air transportation to surface transportation.

1.c. A response is provided by Witness Bozzo.

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2. Please refer to USPS-T-1 at 2. The Postal Service states “[t]o evaluate the market potential of upgrading RG and PSG service standards, the Postal Service considered market data and industry trends in relation to the Postal Service product line and concluded that there was significant unmet market demand for a medium-speed, low-cost ground transportation product for shipping packages that was not addressed by any existing Postal Service product.” Please provide estimated volume that represents the “significant unmet market demand for a medium-speed, low-cost ground transportation product” and describe the source data and methodology used to estimate the volume.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2022-1/NP6.

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3. Please refer to USPS-T-1 at 6. The Postal Service states "[t]his change would provide greater network efficiencies by aligning these products with a distinct network flow which would alleviate the down-ward pressure to maintain various service standards with different products." Please explain what is meant by "down-ward pressure" in the above-referenced statement.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2022-1/NP6.

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4. Please refer to USPS-T-1 at 7. The Postal Service states "...it is our experience that ground shipping customers tend to be more price conscious." Please explain what is meant by "price conscious" in the above-referenced statement.

RESPONSE:

The reference to price consciousness is based on our analysis of customers shipping mode selection methods. Many companies and shipping decision-makers choose a ground shipping solution in lieu of a faster transit mode in exchange for a discount and/or a less expensive rate. The level of commercial shipper price consciousness was measured in an online shipping decision maker survey, where shipping decision-makers rated their willingness to accept slower transit times – up to 5 days, for a cheaper price. The response validated the Postal Service's experience in customer's overall willingness to prioritize cost over speed for a cheaper price for less critical shipments. See USPS-LR-N2022-1/NP2, Commercial Shipper Survey.

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5. Please refer to USPS-T-1 at 8-9. The Postal Service states "FCPS provides a medium-speed, low-price shipping option for lightweight (less than a pound) packages. But the Postal Service has no similar product for large packages in the medium-speed, low-price market sector." However, FCPS appears to represent the medium-speed, medium-price market sector in Figure 2, which illustrates "Products by Market Segment."
- a. Please describe the time period that is represented by Figure 2.
 - b. Please define the terms, "low-price," "medium-price," and "high-price" and provide the basis for the definitions.
 - c. Please refer to USPS-T-1 at 2 and confirm that the terms "low-price" and "low-cost" are used interchangeably. If not confirmed, please define the terms, "low-cost," "medium-cost," and "high-cost" and provide the basis for the definitions.
 - d. Please reconcile the above-referenced statement with Figure 2 regarding FCPS's place in the market.
 - e. Please provide an estimate of the average percentage price decrease required for Priority Mail (PM) to be considered "low-price."
 - f. Please confirm that if the proposed service standard change is adopted, that there will no longer be a "low-speed, low-price" Postal Service large package delivery product. If not confirmed, please identify the product.

RESPONSE:

5.a. The timeframe captured in figure 2 affords a view of the current product portfolio and of how competitive shipping products are distributed across the price and speed axis.

5.b. Low-price: We define low-price as a price less than published parcels destined to zone 2, 1LB (net minimum) charge for LB -rated competitive parcels.

Medium-price: We define "medium-price" as prices that are associated with more expedited products, such as 2-day and 3-day deferred shipping products. These products travel in a more expedited fashion, quicker than ground parcels, but slower than express products to which the pricing aligns at medium price.

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High-price: We define "high-price" as prices that are associated with express products, such as 1 day and some 2 day early express shipping products. These products travel in an express fashion which are typically the quickest published shipping options that carriers offer to which pricing aligns at a high price.

The basis for the definitions is industry knowledge and association.

5.c. The terms "low-price" and "low-cost" were used interchangeably in some sections. Note that there are a few references to cost that speak to the Postal Service's internal costs to serve/deliver the Priority Mail, Retail Ground, or Parcel Select Ground products.

5.d. FCPS is a medium-speed, low-price product. Figure 2 in USPS-T-1 inaccurately boxed FCPS with Priority Mail, giving the impression that FCPS was a medium-price product. The Postal Service will prepare and file an errata with a revised Figure 2. The testimony that precedes Figure 2, however, clearly states that "FCPS provides a medium-speed, low-price shipping option...." See USPS-T-1 at 8, line 20.

5.e. Please see the response filed under seal as part of USPS-LR-N2022-1/NP6.

5.f. If the proposed service standard change is adopted, our current product(s) Retail and Parcel Select Ground that function as low-speed, low-priced products will be improved. They will remain a low-price shipping option for larger packages; however, their speed will be improved by as much as three days.

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6. Please refer to USPS-T-1 at 10. The Postal Service states that "...having a 2- to 5-day product for both light and heavier packages will better align the Postal Service's product portfolio to the package shipping market and enable the Postal Service to better compete with its private-sector competitors."
- a. Please describe the attributes of the market or segment of the market in which the Postal Service believes
 - i. Retail Ground competes before and after the proposed change
 - ii. Parcel Select Ground competes before and after the proposed change
 - b. Please identify competing private sector products operating in the market or market segment for
 - i. Retail Ground before and after the proposed change
 - ii. Parcel Select Ground before and after the proposed change
 - c. Please provide a projection of new "medium-speed, low-price" package volume and revenue that the Postal Service expects to divert from its private-sector competitors and explain the basis for the projection.

RESPONSE:

- 6.a. Please see the response filed under seal as part of USPS-LR-N2022-1/NP6.
- 6.b.
- i. Before: UPS SurePost, FedEx Ground Economy
After: UPS Ground, FedEx Ground
 - ii. Before: UPS SurePost, FedEx Ground Economy
After: UPS Ground, FedEx Ground
- 6.c. The Postal Service's volume and revenue projection related to the planned RG-PSG service standard change considered overall growth potential, which includes anticipated new business as well as the possibility of diversion from existing competitors but did not break out projections specifically for diversion from existing carriers. Based

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on the projected market growth and the ability for this product to be enhanced to be an acceptable market alternative, customer willingness to pay for improved speed of service, reliability, and pricing alignment to comparable competitor ground shipments, the Postal Service projects an overall volume growth. For additional details, please see the response filed under seal as part of USPS-LR-N2022-1/NP6.

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7. Please refer to USPS-T-1 at 11. The Postal Service states, “[t]he level of diversion depends on the level of customer price sensitivity and specific service needs, given that PM remains a faster option in some lanes, with a 1- to 3- day service standard and therefore offers service enhancement that would continue to differentiate PM from an enhanced RG-PSG.”
 - a. Please confirm that PM and RG-PSG large packages in Zones 1 through 4 receive approximately the same service with regards to speed. If not confirmed, please explain.
 - b. Please provide a projection of package volume and revenue that may be diverted from PM under the proposed service standard change.

RESPONSE:

- 7.a. Confirmed in part. PM will not always have the same service standard as RG/PSG. PM has an expanded one-day reach depending upon the point of origin, whereas RG/PSG does not have a one-day service component. While some volume in zones 1-4 would have the same service standard, some will differ.
- 7.b. Please see the response filed under seal as part of USPS-LR-N2022-1/NP6.

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8. Please refer to USPS-T-1 at 11. The Postal Service states, “[b]y consolidating RG and PSG volume with FCPS volume, the Postal Service can offer faster service for larger packages.” Please confirm that there will be no impact on the processing and transportation of PM under the proposed operational changes. If not confirmed, please describe the impact.

RESPONSE:

Confirmed.

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1. Please refer to USPS-T-1.⁷ Please also refer to USPS-T-2.⁸ The Postal Service states that the proposed service standards for RG and PSG are predicated on, and would align with, the planned service standards for First-Class Package Service (FCPS)⁹ within the contiguous United States. USPS-T-1 at 2, 4; USPS-T-2 at 10. The Postal Service further explains that it determined the proper transportation mode for “a given shipment” by first assessing whether surface transportation was logistically viable within the 5-day service standard window in the “current state of the FCPS surface transportation network” and if so, subsequently comparing the price of surface transportation to the price of air transportation. USPS-T-2 at 16-17. The Postal Service concludes that the consolidation of RG and PSG with FCPS would enable “further optimization” of the Postal Service’s surface transportation network by improving capacity utilization in surface lanes. *Id.* at 17-18. Please provide clarifications with respect to the transportation impact analysis that the Postal Service performed in the instant proceeding.*
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 - i. If question 1.b. is not confirmed, please explain.

⁷ Direct Testimony of Steven E. Jarboe on Behalf of the United States Postal Service (USPS-T-1), March 21, 2022.

⁸ Direct Testimony of Kevin P. Bray on Behalf of the United States Postal Service (USPS-T-2), March 21, 2022.

⁹ See *generally* Docket No. N2021-2, Advisory Opinion on the Service Standard Changes Associated with First-Class Package Service, September 29, 2021 (Docket No. N2021-2 Advisory Opinion).

¹⁰ See Docket No. N2021-2 Advisory Opinion at 114-20 for the discussion of the “final network” of the Postal Service’s FCM/FCPS Model.

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- ii. If question 1.b. is confirmed, please also confirm that the shipments, for which cost-effectiveness was evaluated, included all volumes modeled in the FCM/FCPS Model and the newly added RG and PSG volumes. If not confirmed, please list the volumes included in the modeled network.
- c. If question 1.a. above is confirmed, please also confirm whether the transportation cost changes presented in USPS-T-3¹¹ and in Library Reference USPS-LR-N2022-1/1¹² represent changes in transportation costs that are additional to those projected from the FCM/FCPS Model, and stem solely from added RG and PSG volumes to the FCM/FCPS Model's final network. If not confirmed, please explain.

RESPONSE:

- 1.a. A response is provided by Witness Bray.
- 1.b. A response is provided by Witness Bray.
- 1.c. Confirmed that the changes in transportation costs represent changes stemming from the addition of RG and PSG volumes to the FCM/FCPS transportation network.

However, as noted by Witness Bray in the response to question 1(b) of this POIR, the baseline is not solely based on the proposed mode from the FCM/FCPS model in Docket No. N2021-2.

¹¹ See Direct Testimony of A. Thomas Bozzo on Behalf of the United States Postal Service (USPS-T-3), March 21, 2022, at 5-6.

¹² Library Reference USPS-LR-N2022-1/1, March 21, 2022, Excel file "RG.PSG.FCPS.Cost.Impact.public.xlsx," tab "Summary_MP_Trans," cell C6.

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9. Please refer to Library Reference USPS-LR-N2022-1/NP3, March 21, 2022, Preface at 2. The Postal Service states “[t]he Stata program “MODSFY21_APPS.NP.do” produces the “MODSprod2021_apps_extd.NP.xlsx” workbook using the methodology from ACR2021 folder USPS-FY21-23. Finally, the workbook “opmap21-apps.NP.xlsx” is an input to the Stata program that identifies the three-digit MODS operations included in the productivity calculations.” Please provide all the input files used to produce the “MODSprod2021_apps_extd.NP.xlsx” workbook, specifically, “finlist21.xlsx,” “ndc_fins21.xlsx,” and “MODS_MONTH_FY21.csv.”

RESPONSE:

Please see the requested files provided under seal in USPS-N2022-1-NP5.

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10. Please refer to Library Reference USPS-LR-N2022-1/NP3, folder “_MACOSX.” Please confirm that the files contained in the above-referenced folder are duplicates of the files contained in folder “USPS-RM2022-1-NP3” and contain no additional data. If not confirmed, please provide revised versions of the files in the “_MACOSX” folder that can be accessed.

RESPONSE:

Confirmed that the _MACOSX folder contains no additional data. Please note that the _MACOSX folder contents are not duplicate files, but rather contain metadata used to display the folder contents on Apple computers running MacOS.